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To: Members of the Executive Board
From: The Secretary
Subject: Meeting of the GATT Council of Representatives

Attached for the information of the Executive Directors is a report by the Fund observers on the meeting of the GATT Council of Representatives, held in Geneva on May 15 and 16, 1984.

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Department Heads

INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observers 1/

June 4, 1984

The GATT Council of Representatives met on May 15-16, 1984 under the chairmanship of Ambassador F. Jaramillo of Colombia. The regular meeting of the Council 2/ was preceded by a special session to review developments in the trading system. 3/ The principal agenda items for the regular meeting were the implementation of the GATT work program, the Fund study on exchange rate volatility and world trade, reports on several dispute panels, a statement on the trade-finance link by the Chairman of the Committee on Balance of Payments Restrictions, reports of the Textiles Committee and the Textiles Surveillance Body, and a GATT secretariat study on textiles. The Fund observers at the meetings were Messrs. Carlos Sanson and Richard Eglin of the Geneva Office; this report summarizes the main points of the discussion.

1. Special session of the Council

The Chairman noted that the purpose of the special session was to review progress made by contracting parties in implementing paragraph 7(i) of the Ministerial Declaration of November 1982, which called for determined efforts to ensure that trade policies and measures were consistent with GATT principles and rules and to resist protectionist pressures in the formulation and implementation of national trade policies.

The Director-General introduced a GATT secretariat paper containing details on major developments in trade policy, and new trade policy measures applied in the period October 1983-March 1984. 4/ He explained that it included trade measures that the secretariat had gathered from indirect sources, but which had not been formally notified to the GATT, as well as an analysis of the trade effects of certain

1/ Documents referred to in this report are on file in the Secretary's Department.

2/ GATT/AIR/2006.

3/ GATT/AIR/2005.

4/ GATT document C/W/437.

measures. The paper confirmed that even though the volume of world trade was picking up, protectionist measures continued to intensify. During the past six months, some contracting parties had made tariff reductions over and above those scheduled at the Tokyo Round negotiations, but there was little indication of standstill or rollback of nontariff trade measures. It was clear from the paper that the system of notification of trade measures by contracting parties needed radical improvement and the Director-General proposed that contracting parties regularly notify new trade measures to the Secretariat. He added that transparency was not an end in itself and that contracting parties should take the opportunity of special sessions of the Council to review the conformity of trade measures with the General Agreement.

Following specific comments by a number of delegations, mainly to correct or elaborate upon details of trade measures contained in the Secretariat paper, some delegations made general comments about the document itself and the failure of contracting parties to effect a standstill and rollback of trade measures.

The representative of Jamaica said that special Council sessions should be used for gaining understanding of the trading system, and he felt that the Secretariat paper could be considerably improved. In his view, the Fund's Annual Report on Exchange Arrangements and Exchange Restrictions provided a more comprehensive analysis of developments in the trading system. Many recent developments with implications for trade and trade policy were missing from the Secretariat paper, such as efforts by the European Communities, Japan, and the United States to strengthen their high technology industries, the recent ruling in the United States on changes in the anti-trust laws, certain legal decisions on cartelization in the European Communities, and changes in restrictive trade practices in Japan. He also noted that certain countertrade arrangements were listed in the Secretariat paper, and questioned whether this was appropriate since it had not yet been decided whether countertrade fell within the scope of the General Agreement.

The representative of India felt that the work of the special session could be considerably more fruitful if delegations were forthcoming in challenging and criticizing other contracting parties' trade measures. The Secretariat could help in this respect by including in its background paper more analysis of trends in trade policy and a differentiation between trade measures on the basis of their relative importance in influencing trade. For example, he said, the current paper reported the recent changes made in U.S. policy on textile imports, but it did not highlight their potential significance in

restricting trade; in the last five months, the United States had issued over 80 calls for consultations with textile exporters to discuss quota limitations and trade in areas of textiles that previously had been excluded from the Multi-Fibre Arrangement. By contrast, India's recent increase in the tariff imposed on rayon filament yarn imports that was noted in the Secretariat paper should be considered in conjunction with the substantial trade liberalization achieved by India in the past few years.

The representatives of Israel, Korea, Pakistan, and Yugoslavia said that subsequent Secretariat papers should include a clearer analysis of trends in trade policy, taking into account the obligation of developed countries to initiate a rollback in protectionism and to provide special and differential treatment to developing countries.

The representative of the European Communities said that the Secretariat paper was a useful reference document but that in future it should also include some indication of the extent to which governments were resisting protectionist pressures.

The representative of Sweden, on behalf of the Nordic countries, supported by the representatives of Australia, Canada, Singapore, and the United States, expressed satisfaction with the Secretariat paper and noted that it helped increase the transparency of the trading system. He deplored the fact that the state of notification of measures by many contracting parties remained poor and that the Secretariat had been forced to resort to sources outside GATT for information on the trading system. The paper showed that there had been no significant rollback of protectionist measures in the past six months and that indeed the number of new measures taken would indicate that protectionism continued to advance. He proposed that informal consultations be held before the next special session of the Council to discuss how to facilitate trade liberalization. The representative of Canada noted also that three-quarters of the disputes considered in the past six months had encountered delays of one kind or another and he emphasized that the dispute settlement mechanism must be strengthened and respected.

The representative of Japan informed the Council of recent measures taken by his Government to improve access to the Japanese market, including the liberalization of both tariff and nontariff measures, and he urged other developed countries to follow suit. ^{1/} There had been worrying indications recently of departures by many contracting parties from the principles of nondiscrimination and

^{1/} GATT document L/5648.

multilateralism, and he recalled his Prime Minister's proposal for a new round of multilateral trade negotiations to initiate a generalized rollback of protective measures. The representative of the European Communities said that in his view Japan's recent liberalization measures were insufficient.

2. Regular session of the Council

a. Implementation of the GATT work program

The representative of Uruguay, on behalf of the developing country contracting parties to the GATT, expressed concern over the worsening international economic environment confronting them, and the urgent need for improved access to the markets of the developed countries. ^{1/} Restrictions facing developing country exports had intensified since the completion of the Tokyo Round in spite of the obligation of developed countries to accord them special and preferential treatment, and there was no indication of the developed countries' commitment to a standstill and rollback of protectionist measures. The developing countries were appealing to developed contracting parties individually to remove restrictions inconsistent with GATT, including safeguard actions, to abstain from invoking the provision of the Code on Subsidies, and to exercise restraint in countervailing and antidumping procedures, in all cases where these affected the exports of developing countries. In addition, they called on developed contracting parties to take immediate steps to liberalize their import regimes for textiles and clothing, to extend and improve their GSP schemes, and to give special attention to the needs of the least developed countries. The main task now before the international trading community was to complete the GATT Ministerial work program, and until measures and commitments contained in it that would benefit the trade of developing countries were fully implemented, the developing countries would consider any new proposals for a new round of multilateral trade negotiations in GATT to be lacking in credibility and devoid of relevance. The representative of Uruguay therefore urged developed contracting parties to re-emphasize their commitment to fully implement the Ministerial work program.

The representatives of India, Jamaica, and Korea made supporting statements. The representatives of India and Korea said that it was crucial to complete the work program, and particularly to establish more effective special and preferential treatment for developing countries, before embarking on a new round of trade negotiations. The representative of Jamaica noted that while substantial progress had been made in the review of bringing trade in agricultural products

^{1/} GATT document L/5647.

more fully under GATT discipline and in containing the escalation of tariffs, progress had been extremely limited in the interrelated areas of safeguards, quantitative restrictions and other nontariff measures, and structural adjustment. In view of the changes which the international financial system had undergone since the early 1970s when the Tokyo Round began, particularly in respect of factors affecting capital flows, the trade-finance link would need to be at the heart of a new round of trade negotiations; developing countries would demand that the ground was carefully prepared in this area before being in a position to embark seriously in negotiations over trade liberalization.

The representative of the European Communities welcomed the statement on behalf of developing countries which, he felt, showed their support for participating fully in a new round of trade negotiations. However, he said that negotiation and trade liberalization should be a continuous process, and the work program should be seen as a complete package on which progress should be made steadily and comprehensively, and not on a piecemeal basis. The work program had been designed for the whole of the 1980s, and the CONTRACTING PARTIES meeting next November should not be taken as a deadline but as an indicative date. It might not prove possible to complete the work program before preparing for a new round of trade negotiations, but it was vital that it should lay the necessary substantive and procedural bases for negotiations. In addition, it was important that the upturn in the world economy should become more generalized and stronger, and that there should be an improvement in the functioning of the international monetary and financial system. The European Communities were sympathetic to the concerns of the developing countries, but they were not prepared to engage in a North-South trade dialogue.

The representative of Switzerland said that the trading community had failed to live up to the commitments on standstill and rollback undertaken at the Ministerial Meeting. Switzerland had prevented any erosion of its GSP system, and would implement further Tokyo Round tariff reductions on July 1, 1984. However, he was most concerned by certain countries' increased resort to grey area and safeguard measures, which was undermining the principle of multilateralism that had been central to the Ministerial work program. Both developed and developing contracting parties had an obligation to rollback protective measures, and it was not a sound strategy for countries to polarize into groups on the basis of their stage of development or the nature of their obligations under the General Agreement. Developed contracting parties should set an example in initiating a rollback, since developing countries could not be asked for the time being to

make major trade concessions. However, the recent deterioration in access to developing country markets was a matter for serious concern. Developing countries should however be prepared to accept more GATT obligations. He viewed substantive progress in the work program as a precondition for a new round of trade negotiations, although it was clear that there were certain aspects of it that would not be resolved other than during multilateral negotiations. If progress with the work program did not gain momentum, there was a danger that some contracting parties might splinter off to negotiate bilaterally on areas which they thought had not been treated adequately.

The representative of the United States expressed his Government's concern at the slow progress being made with the work program, and called on all contracting parties to renew their efforts before the CONTRACTING PARTIES meeting in November. The representatives of Japan and Sweden, on behalf of the Nordic countries, shared concerns for improving the trading environment for developing countries, and emphasized the urgent need for a rollback. They also regretted that progress in the Ministerial work program had been so slow, and the representative of Japan stated that reaching an understanding on safeguards had proved to be complicated and involved difficulties that had not been envisaged at the time of the Ministerial Meeting. However, successful completion of the work program and the initiation of a new round of trade negotiations would be mutually reinforcing elements. The representative of Australia added his support for the initiation of a new round of trade negotiations, but added that the promise of improved market access to developed countries' markets was fundamental to his country's participation. He also stressed that the principle of multilateralism needed to be strengthened and that contracting parties should concentrate in the work program on developing a favorable environment for further trade liberalization. The representative of Canada fully endorsed this latter point. The representatives of Austria, Czechoslovakia, and Poland stated that it was necessary to complete and implement the work program before engaging in a new round of trade negotiations.

The Chairman, at the request of the representative of Uruguay, on behalf of developing country contracting parties, stated that this item would be discussed further at the next meeting of the Consultative Group of Eighteen and at the next Council meeting.

b. Exchange rate volatility and world trade

The Chairman noted that the study undertaken by the staff of the Fund on this topic, in consultation with the GATT secretariat, had been introduced at the last Council meeting but without eliciting much discussion. 1/

1/ GATT document L/5626.

The representative of the European Communities noted that his authorities had now had time to review the study in detail. They were not satisfied that the full implications of exchange rate fluctuations on international trade had been covered by the study, particularly in the context of the medium to long term. His delegation was therefore requesting that the Director-General of the GATT consult again with the Managing Director of the Fund to arrange for a supplementary study that would approach the question of exchange rate fluctuations from a medium-term perspective. Furthermore, the European Communities were not satisfied that the mandate provided by GATT Ministers had been fully carried out, particularly in respect of the implications of exchange rate changes for the General Agreement. He recalled that the Havana Charter had rested on a number of important hypotheses with regard to exchange rates, and these hypotheses were no longer valid in a period in which flexible exchange rates showed a tendency to fluctuate erratically. The interpretation of many Articles of the General Agreement depended critically on a large degree of stability in exchange rate markets; for example, the calculation of Schedules of Concessions (Article II); Anti-dumping and Countervailing Duties (Article VI), and Valuation for Customs Purposes (Article VII), depended on agreement among contracting parties over the appropriate exchange rate to use, and a relatively stable system of exchange rates was also vital if an accurate assessment was to be made of trade restrictions imposed for balance of payments purposes.

The representative of Jamaica supported the EC representative's concern over the wide-reaching implications of exchange rate fluctuations for the interpretation and operation of the General Agreement, but he preferred that the GATT secretariat prepare a background paper on this subject before the Fund was asked to become involved again in this item of the Ministerial work program. The representative of the United States said he saw no need for a further study by the Fund. The existing study was thorough, and exhausted the Ministerial mandate in respect of Fund participation. The U.S. Government agreed fully with the conclusions presented in the Fund's study, namely, that it was not possible to show conclusively that erratic exchange rate fluctuations discouraged international trade and investment. However, his delegation could agree to the GATT secretariat preparing a supplementary study on the question of the implications for the General Agreement of exchange rate fluctuations or, alternatively, to the matter being discussed in a working party. The representative of Poland, supported by the representative of Hungary, thought the Fund study contained internal inconsistencies, and regretted that the study had not broached the question of developing countries' debt problems and their effect on protectionism. The representative of Israel noted that his authorities were convinced that erratic exchange rate fluctuations affected trade at the micro level, even if the Fund study had found no conclusive evidence at the macro level.

Following this exchange of views, the Director-General of the GATT said it would be necessary for delegations to clarify their major concerns and their preferred method of continuing work in this area, and delegations agreed that informal consultations should be held on the matter before the next Council meeting.

c. Dispute settlement proceedings

The Council adopted the report of the Panel on Japanese Measures on Imports of Leather, and the report of the Panel on the United States Manufacturing Clause. 1/

The representative of Japan said his Government was prepared to accept the findings of the Panel report and would make efforts to bring Japan's trade restrictions on leather imports into conformity with GATT disciplines as soon as possible. The Japanese Government had already placed quotas for imports of wet blue chrome leather on an automatic licensing basis, and intended to reduce tariffs on this item from April 1985 and to publicize quota volumes for all other leather imports. The representative of the United States said his Government welcomed Japan's acceptance of the Panel findings, and was prepared to give the Japanese Government a reasonable amount of time to bring its import policy for leather goods into full conformity with the GATT. However, the initial steps announced by the Japanese representative were inadequate, and further liberalization should be undertaken expeditiously. The representatives of Australia, Canada, Chile, the European Communities, India, New Zealand, Pakistan, and the United Kingdom, on behalf of Hong Kong, supported the adoption of the report, but also felt that the initial measures announced were inadequate. They called on Japan to complete full liberalization of leather imports as soon as possible.

The representative of the United States stated that his Government supported the adoption of the Panel report on the U.S. Manufacturing Clause, but that bringing U.S. practices in this respect into conformity with the GATT might take some time, since it would require domestic legislative changes. The representative of the European Communities welcomed U.S. support for the report, and urged the United States to implement the Panel's recommendations as soon as possible.

The Council took up a request by the representative of the United Kingdom, on behalf of Hong Kong, to consider the follow-up report of the Panel on EEC Quantitative Restrictions on Imports of Certain Products from Hong Kong. The representative of the United Kingdom, on behalf of Hong Kong, noted that, following the Panel findings that France maintained illegal restrictions on certain products from Hong Kong, including quartz watches, the European Communities had taken safeguard action on imports of quartz watches. While this was helpful to the GATT system, since it amounted to the replacement of an illegal by a legal measure, his authorities were concerned that the justification for

1/ GATT documents L/5623 and L/5609.

safeguard action in this instance was far from clear. If the safeguard action was designed to protect the infant quartz watch industry in France, this was hard to reconcile with the conditions of Article XIX of the General Agreement. Furthermore, he noted that France had not yet taken action to comply with the Panel findings on other products included in the dispute, and he asked the EC representative when such action might be expected.

The representative of Singapore welcomed the replacement by the European Communities of illegal quotas by safeguard action, but he hoped that, in doing so, the European Communities would fully respect the obligations of Article XIX. Safeguard action should only be used in exceptional cases. The representative of Canada said he was disappointed that the French authorities had still not complied fully with the Panel findings, and he urged them to implement appropriate trade policy changes in order to conform fully to the General Agreement. The representatives of Japan and Korea said they could see no prima facie justification for Article XIX action by the European Communities in the case of quartz watches, and they reserved all their rights in the matter.

The representative of the European Communities said France had complied with the Panel findings by removing quotas on certain knitted goods and toys, and by increasing the quotas on umbrellas and radio receivers imported from Hong Kong. Furthermore, the European Communities had a right to take safeguard action to protect the watch industry. The Council agreed to revert to this matter.

At the request of the representative of Nicaragua, the Council again took up the question of follow-up action on the report of the Panel on U.S. Restrictions on Imports of Sugar from Nicaragua. The representative of Nicaragua said the United States had failed to comply with the Panel findings and restore a sugar import quota to Nicaragua consistent with the criteria set out in Article XIII:2. He asked the U.S. representative to inform the Council whether the U.S. Government would comply with the Panel findings when it next allocated sugar quotas on October 1, 1984. The representative of Argentina urged the United States to implement the Panel findings as soon as possible. The United States representative reiterated the position of his Government that this was not exclusively a trade issue, and that resolution of the dispute in the GATT would depend on resolution of the broader areas of conflict between Nicaragua and the United States. The Council agreed to revert to this matter.

d. Committee on Balance of Payments Restrictions

The Council adopted the report of the Committee on Balance of Payments Restrictions on its consultations with Nigeria without substantive discussion.

1/ GATT documents COM.TEX/35 and 36, and COM.TEX/SB/900 and Corr. 1.

The Council reverted to a statement by the Chairman of the Committee on Balance of Payments Restrictions at its previous meeting, which had reviewed how the Committee might take better account of the external trading environment for consulting countries, and, more generally, how the Committee's consultations could contribute to work in the GATT to promote trade liberalization and allow export expansion by countries in balance of payments difficulties, particularly the heavily indebted developing countries. The Chairman noted that a number of heavily indebted developing countries had been forced to resort to import contraction to improve their trade balance, and that this was clearly a least-best solution from the point of view of international balance of payments adjustment and international trade.

The representatives of the European Communities and the United States welcomed the constructive work done in the Committee on Balance of Payments Restrictions on this issue. They agreed that the external trading environment confronting consulting countries was an important aspect of the Committee's consultations, but they emphasized that a full review of a consulting country's domestic adjustment measures should remain the centerpiece of the Committee's work. The Committee Chairman had suggested that the major trading partners of consulting countries review whether trade measures affecting the exports of these countries might be eased, including measures of a safeguard nature and antidumping and countervailing duties. It was to be welcomed that the Chairman had stressed that any concessions granted should be on a most-favored-nation basis, but it was difficult to envisage substantive action. Antidumping and countervailing duties were not protective measures, and could not be modified unless exporting countries stopped dumping practices or removed subsidies, while safeguard measures were not open to negotiation on the basis of special and preferential treatment for developing countries. The most that could be expected from the exercise was minor trade concessions; nevertheless, these could assist in restoring confidence in the management of the balance of payments of consulting countries.

The representatives of Argentina, Brazil, Jamaica, and the Philippines stressed that there remained little room for further domestic adjustment in the case of many developing countries with balance of payments difficulties.

The Council took note of the statements made, and agreed that the Chairman of the Committee on Balance of Payments Restrictions should report periodically on progress made in relieving the exports constraints facing consulting countries.

e. Trade in textiles

The reports of the Textiles Committee, and the annual report of the Textiles Surveillance Body, were submitted to the Council. ^{1/} The representative of Pakistan, on behalf of developing country exporters of

^{1/} GATT documents COM.TEX/35 and 36, and COM.TEX/SB/900 and Corr. 1.

textiles and clothing, stated that recent developments in trade in textiles had been very worrying. The concerns of developing countries regarding the changes that had been made in U.S. textile imports policy were fully reflected in the reports before the Council. In the past six months, the United States had made more than 80 calls for consultations with textile exporters, despite the fact that demand for textiles in the United States had been buoyant since the third quarter of 1983. The representatives of India and the United Kingdom, on behalf of Hong Kong, added that it was particularly worrying that the Textiles Surveillance Body had found a lack of market disruption in some cases submitted to it, and that this reflected a gradual undermining of the Multi-Fibre Arrangement. The representative of the United States understood that developing countries should be concerned about the changes made in U.S. import policy, but said the concerns that the United States was becoming more protectionist in the area of trade in textiles were groundless. U.S. textile and apparel imports had increased by 50 percent between 1980 and 1983, and were more than 40 percent higher in the first quarter of 1984 than in the first quarter of 1983. Developing countries had accounted for 70 percent of this increase. The Council took note of the comments made, and adopted the reports.

The Deputy Director-General presented to the Council a study by the GATT secretariat entitled "Textiles and Clothing in the World Economy," 1/ which had been requested at the Ministerial Meeting of the CONTRACTING PARTIES. The Chairman of the Council noted that, as a result of informal consultations, it had been decided to set up a working party to consider the study and to examine the possibilities for bringing about the full application of GATT provisions to trade in textiles. Many representatives expressed their support for this course of action, and it was agreed that the Council Chairman would select a chairman for the working party.

f. Other items

The representative of the European Communities renewed his delegation's request that a working party be set up to examine Japanese measures affecting the world market for copper ores and concentrates. 3/ The representative of Japan opposed the establishment of a working party, arguing that the problem of copper ore purchase and pricing by Japanese companies was a private commercial matter that did not fall under GATT jurisdiction. The representatives of Argentina, Chile, Norway, on behalf of the Nordic countries, and the Philippines expressed sympathy for the EC concern in this area, but felt that further clarification of the issue was needed before the establishment of a working party. The Council agreed to revert to this item.

1/ GATT document Spec(84)24.

2/ GATT document L/5627.